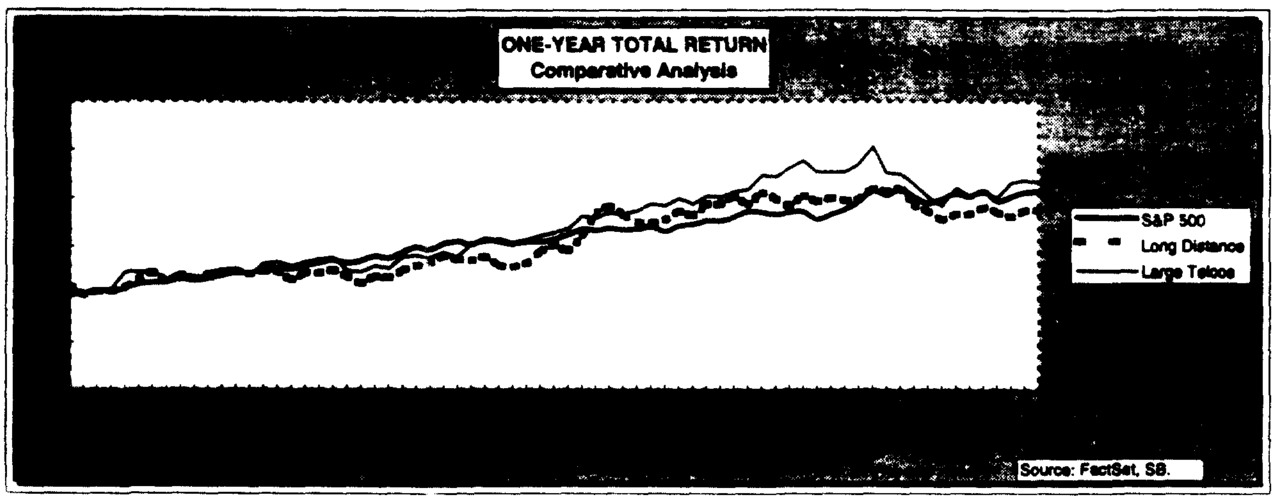
risk/return potential for the individual companies. Although this process is highly dynamic, we believe that open markets will be a net positive for the telephone companies, since (1) they already have much of the wireless/wireline infrastructure in place to provide local exchange, long-distance and wireless service, and (2) upgrades to a broadband wired network can be paid for through existing cash flow. In contrast, the long-distance and cable companies will have to make substantial investments in facilities to compete with the Bells in their regions. In any event, the regulatory/political/judicial environment is a critical area to monitor, since it may create some investment surprises, both positive and negative. Key issues that will have to be decided by the FCC and the state regulatory commissions include the methodology of pricing for unbundled telephone services; size, support and allocation of a revised universal service fund; and specific standards that constitute compliance with the local exchange checklist for entry into long-distance and manufacturing. ***These issues notwithstanding, we believe that the environment is moving in a very positive direction for the telcos.***

The long-distance companies' fundamentals appear extremely positive, with pricing relatively stable since 1990, access charges continuing to decline (although less so in mid-1996 to mid-1997 than in the past) and demand expected to remain strong. If all of these developments occur, growth for most companies will be in the low to mid-teens area on the basic business. However, we believe that risk in this sector is increasing because **AT&T** is again losing market share at an accelerating rate, which may result in some new pricing programs. More importantly, Bell entry in 1997 looms as a major threat. Finally, both **Sprint** and AT&T will start to report their PCS start-up losses in late 1996, which will put pressure on reported EPS. ***Based on all these factors, both the magnitude of our earnings estimates and long-term growth forecasts, and our degree of confidence in them, are less than the consensus in many cases.***

We value the telephone company stocks with reasonably normal earnings at 90%-110% of the market multiple, based on the ability of most companies to grow EPS at an above-market rate of growth after 1995. Since stocks of the telephone companies are selling at a 15% discount to the market multiple, we think that the group is generally attractive, with 25%-30% potential relative appreciation. We would be at least market-weighted in the sector. Our current **1M (Buy, Medium Risk)**-rated stocks include **BellSouth, GTE, Pacific Telesis and SBC**, but **Bell Atlantic** and **NYNEX** also look attractive, due to the positive outlook for their proposed merger. We also like the smaller telcos such as **ALLTEL** and **Century Telephone,** both 1M rated. Because of the aforementioned risks, we perceive in long-distance, we are cautious on the stocks of the primary long-distance carriers, AT&T and **MCI Communications***.



FUNDAMENTAL OUTLOOK: TELEPHONE INDUSTRY

Telephone earnings growth has been rising since 1992, as a significant portion of telephone operations have become regulated on an incentive (rather than a strict rate-of-return) basis, and wireless has become a meaningful portion of total earnings and earnings growth for many companies. Earnings from telephone operations rose by about 4% in 1992, about 5% per year in 1993-94, but jumped almost 10% in 1995. Many companies reported mid-teens earnings gains in 1Q96. Total corporate 1995 EPS (which includes earnings from cellular and other businesses) rose 6%-7% on an operating basis in 1995 (i.e., excluding special charges such as FASB No. 106 and plant writedowns associated with the shift to GAAP from regulatory accounting). However, these averages are depressed by some weak results at individual companies. ***We think that most companies now have the potential to grow telephone earnings at a 6%-8% rate, with total corporate EPS growth in the 9%-12% range as was reported in 1Q96.*** This pickup largely reflects an acceleration in growth of the basic telephone business due to the approvals by most major state regulatory commissions of price-cap regulation. This permits the companies to retain most of their earnings growth; as a result, the telcos have become increasingly aggressive in their cost reduction and marketing efforts.

The keys to earnings growth for the individual telcos are state/federal regulatory treatment, ability to grow earnings from telephone operations in a more competitive environment, success in unregulated businesses and the degree of dilution from new investments. Specifically, the primary differentiating factors among telcos will be: (1) the ability to avoid major rate cuts as commissions and/or legislators move away from strict rate-base regulation (this change should be accelerated by recent telecommunications legislation); (2) obtaining fair regulatory treatment on competitive issues including implementation of the Telecommunications Act of 1996 and dealing effectively with competition from an operating standpoint; (3) developing a strong marketing capability; and (4) success in using excess cash flow to expand/diversify outside of traditional telephone markets, on both a geographical and a product basis. ***Because of the high costs of acquiring communications companies in the United States, shareholder returns will most likely be enhanced through an intensive in-region strategy, with out-of-region investments made primarily in the international area, where potential returns are significantly higher than in the United States.***

Competition has become a major issue for the telephone companies since it is clear that the local exchange business will start to become as competitive in the late 1990s—at least in the business sectors—as the long-distance business was in the 1980s. While competition will require the telcos to focus much more intently on cost reduction and service enhancement than they have had to in the past, we think that for companies that can meet these competitive challenges, in the final analysis, competition will be a positive for two primary reasons: (1) it will open up new markets such as cable and long-distance to them; and (2) it will (or already has) deregulated telephone earnings. As indicated above, we think the latter factor is particularly important because earnings of the large telcos have historically been depressed by rate-of-return regulation. Thus, this landmark regulatory change means increased profit potential, as the telcos allocate capital on a return rather than an obligation-to-serve basis, and sharpen their marketing and cost management skills. In this regard, AT&T's experience is instructive: Although the company has lost about 40% of its market over the past 15 years or so, it is much more profitable, in both absolute and relative terms, than it ever was as a regulated entity. Thus, we believe that loss of market share does not necessarily equate to loss of profitability for regulated entities. Whether this is also true for the telephone companies will likely not be clear for several years, although we are optimistic on that score.

The above concern notwithstanding, we think that EPS growth for many telephone companies will continue at much higher than historic rates of 5%-6% due to the elimination of rate-of-return regulation; more aggressive marketing of high-margined enhanced services; and the potential of entry into the long-distance (interlata) business. We believe the latter can add 1%-2% to EPS growth, even assuming some loss of market share in the telcos' own toll business. In that regard, the interlata long-distance market is several times the size of the intralata market. If the large telcos can pick up market share in the former to the same extent that they lose market share in the latter, they should be net beneficiaries. Also, the Bells can enter the interlata business easily and cheaply, and, because of their in-region market positions, achieve sizable market share positions in a short period of time. Based on all these considerations, we think EPS growth for most telephone companies will continue at their recent 8%-12% rate over the foreseeable future. Of this growth, about two-thirds to three-quarters is forecast to come from the basic telephone business (including long-distance) and the remainder from wireless and international investments.

Another positive factor for earnings growth is that competitive pressures appear likely to be less intense than many investors fear. For example, broadband development by the telcos and telephony developments by the cable industry have slowed due to cost and technology issues. We now anticipate that significant competition between the two entities will not occur until sometime after the turn of the century. At that point, all the elements (hardware, software and consumer interest) are likely to come together to make interactive broadband services—video-on-demand, interactive games, home shopping—a major source of new revenues, thereby mitigating competitive pressures on traditional businesses. We also believe that there is likely to be some consolidation between the long-distance and telephone companies within the next two years so that the actual number of competitors in any one market is apt to be fewer than the four to five that seems likely today. The potential for vertical integration is enhanced by the recent merger announcements between SBC/Pacific Telesis and Bell Atlantic/NYNEX. We believe both of these consolidations are clearly positive from the companies standpoints in terms of the potential for additional cost reduction, marketing leverage, and retention of long-distance traffic.

In our view, the major uncertainty in the above positive outlook is regulatory/political developments. In this regard, the 1996-97 period will be critical due to the implementation of new legislation by the state public utility commissions (PUCs) and the FCC. While there clearly is the potential that some of the regulatory rulings could go against the telcos, we think the industry has been extremely effective over the past several years in dealing with state commissions, the FCC, and Congress and we see no reason why this record will not continue. Obviously, however, this is an area that needs to be monitored closely by investors. On the state levels, most of the large telcos are not particularly vulnerable to rate cuts (a major exception is U S West) since most of the cases involve rate plans or structures rather than rate-of-return reviews. In summary, FCC and State Commission decisions during 1994/95 were favorable to extremely favorable for the telcos, and all evidence thus far points to fair treatment of the telcos as the industry evolves toward competitive provision of services.

FUNDAMENTAL OUTLOOK: LONG-DISTANCE INDUSTRY

Earnings for long-distance companies have generally been strong since about mid-1991, as pricing firmed and volume improved. The latter has been running at a 10% rate, with revenue growth in the most recent quarters in the 7%-8% area. As a result, operating income growth in the long-distance arena has ranged from the low teens to the 20%-plus area. From a corporate standpoint, the operating income growth in long-distance has not fully translated into comparable EPS growth for AT&T and MCI. The former has been hurt by both weak results in its manufacturing operations as well as the dilution from its investment in cellular and wireless. MCI's EPS in 1995 were penalized by the deleveraging of its balance sheet through sale of shares to British Telecom and the subsequent investment of those funds in initially dilutive ventures, such as MCI Metro and SHL Systemhouse. Sprint will be going through this same process in 1996 through the sale of a 20% interest to the German and French telephone companies, with the reinvestment of those proceeds in its joint wireless/local exchange partnership with several major cable companies.

All of these activities reflect efforts by the long-distance companies to move away from being a commodity provider of long-distance services and instead providing proprietary or semi-proprietary packages of services (networkMCI BUSINESS) as well as a controlled end-to-end (local, long-distance, and wireless) capability in order to effectively compete with Bell entry into long-distance. These actions, which put pressure on EPS, together with the long-distance industry's strong opposition to recent telecommunications legislation, evidence the industry's recognition of its vulnerability to local exchange competition. ***Thus, notwithstanding good recent operating results, we think the long-distance industry is in a transition phase that could last another two to four years as it seeks to reposition itself as a full-service provider and lessen its competitive vulnerability to the Bell companies.***

Ultimately, these efforts are likely to involve consolidations/alliances between the long-distance and either the telephone or cable companies because of: (1) the prohibitive cost of long-distance companies providing facilities-based local exchange networks for residential and small business customers, and (2) the ability of the cable and telephone companies to maintain a relatively high rate structure for access to residential and small business companies due to limited facilities competition. All of this means that as the telephone industry becomes less regulated, the profitability of the transport function will increasingly come from the residential and small business market, where there is likely to be substantially less access competition than in the large business sector. Thus, the long-distance companies have to be able to obtain true cost-based access to the residential and small business customer in order to serve these markets on a profitable basis. Until the individual companies resolve this issue, it will be difficult to define their long-term growth outlook. ***In this regard, Sprint appears to have the best strategic position because of its partnership arrangements with several of the major cable companies although the extent to which this will carry over into wireline access is not clear***

In summary, earnings of the major long-distance companies may be below expectations in the next few years as: (1) they expand into wireless and local exchange businesses, and (2) the Bell companies successfully enter long-distance in 1997. ***In particular, we think EPS of the major long-distance companies could be flat or down post 1997 as a result of these two factors. Indeed, earnings in 1997 could be pressured if the Bell Companies get early entry into long-distance and can pick up 5% or so market share during the year. The experience of the smaller companies such as ALLTEL, Century, and SNET that have recently moved into long-distance is that 15%-20% market share gains can be fairly easily obtained by telcos entering long-distance. Our five-year growth forecasts (shown in the statistical sections below) assume modest or no EPS growth post-1996.***

INVESTMENT VALUATION: TELEPHONE AND LONG-DISTANCE

Based on the prospects for lightened regulation and improving growth potential for telephone operations, the cash flow value of cellular businesses, and the high quality of earnings (as measured by cash flow and capital structure), we believe that most telephone company stocks should sell at 90%-110% of the market multiple (S&P 500) based on estimated 1996/1997 EPS. This valuation basically is a composite arrived at by assigning a multiple of 0.85x-0.95x telephone/publishing earnings plus the public market or investment value of other businesses, such as cellular, long-distance or international investments. This valuation perspective also reflects the Smith Barney economic outlook that EPS growth for the S&P 500 after 1995 is likely to be only about 5%-6%, a performance that we expect the telephone companies to handily exceed on their current earnings bases, i.e., excluding major future acquisitions or entry into cable or long-distance. Indeed, we think the telephone operations alone could grow at or above a market rate over the next several years, suggesting that valuations on telephone operations could be closer to a market multiple, with overall corporate valuations at a 10%-or-better premium to the market. However, using approximately a market multiple valuation, most of the RBOCs and GTE are selling at 15%-20% discounts to this target. ***Thus, we view these stocks as attractive, particularly for investors who are concerned about the market outlook.***

Aside from valuations resulting from a sum-of-the-parts analysis. the conceptual rationale for assigning close-to-market multiples on traditional, regulated businesses—which historically have sold at greater discounts to the market—is the longer-term potential of the companies to move away from rate-of-return regulation and expand the breadth of services delivered through the telephone network. As noted, however, there is major concern among investors about the outlook for telephone earnings because of increased competition. The issues involved in competition–how aggressive it will be, how capable the companies are in dealing with competitors, the extent to which increased competition expands the overall business; and the regulatory/governmental response to competition—will take several years to resolve. Meanwhile, this competitive uncertainty may act as a damper on stock valuations, despite what we believe will be favorable earnings growth trends over the next several years. ***Nonetheless, in our view, the telephone stocks are quite attractive at current prices.***

In summary, we believe that the stocks of the large telephone companies continue to be attractive despite an increased degree of uncertainty about their outlook.. In this regard, however, the stocks have given up most of their relative gain of 2H95-early 1996 and we believe this uncertainty has been overly discounted. We rate most of the domestic telephone stocks 1M (Buy, Medium Risk) or 2M (Outperform, Medium Risk) based on appreciation potential of 25%-30% relative to our price targets. Our Buy rated stocks are ALLTEL, Century Telephone, GTE, BellSouth, Pacific Telesis and SBC.

As noted, the long-distance companies have the potential to report EPS growth *on their core businesses* in the low to mid-teens if current traffic growth rates persist, pricing remains stable and access charges continue to decline. However, for the major carriers, this is likely to be at least partially offset by the cost of new investments and balance sheet deleveraging. Thus, we think that average reported EPS growth rate for the major long-distance companies in the two-year (1996-98) period will be below that of the telcos. Further, as noted above, the EPS growth outlook post-1996 is murky at best because of the potential impact of Bell entry into long-distance and costs associated with wireless entry. All of this means that stock valuations of the long-distance companies are unlikely to improve. ***For these reasons, we continue to be cautious on the stocks of the long-distance companies relative to current growth rates.***

LARGE TELCOS

Point of View: Differentiating factors among the large telcos are narrowing as states adopt incentive regulatory arrangements and as earnings from unregulated businesses (i.e. excluding **Pacific Telesis** and U S West Communications Group), particularly cellular and international, become a smaller contributor to EPS growth. In our opinion, deregulation of many services and/or other incentive earnings arrangements combined with entrance into new business sectors, such as long-distance and broadband services, should be long-term positives for the group, and should more than offset the impact of increased competition. Operating EPS rose only about 2% annually in 1988-91, compared with the 6%-8% rate of 1985-87, due to the flattening out of telephone earnings as a result of rate-of-return constraints. This growth rate improved to about 5% for the industry in 1992, and 6%-7% in 1993-94. It further improved to 8%-12% for many companies in 1995, and we expect it to continue in this range, since the dilute impact of new investments should have largely bottomed out in 1995-96 and telephone earnings growth is accelerating.

Biggest Concerns: Overpaying for acquisitions; regulatory decisions related to the 1996 Telecom Act.

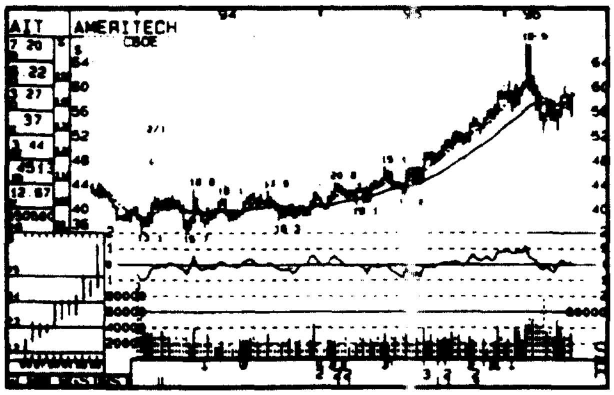


Chart Courtesy of Mansfield Chart Servi

Ameritech Corp. - Quarterly EPS

1996E(a)	$0.86A	$1.01E	$0.94E	$1.00E	$3.81E
1995(b)	$0.76	$0.91	$0.84	$0.90	$3.41
1994 (c)	$0.69	$0.81	$0.76	$0.81	$3.07

(a) Excludes $0.16 in charges in 1Q
(b) Excludes a gain of $0.29 in 1Q95 an $0.08 gain in 3Q95
(c)Excludes $5.02 in charges

Ameritech Corp. (AIT-NYSE)

Price (5/21/96)	$59	EPS 1997E	$4.20
52-Week Range	$67-$42	EPS 1996E(a)	$3.81
Indicated Div.	$2.12	EPS 1995A(b)	$3.41
Yield	3.6%	EPS 1994A(c)	$3.07
BV/Share (1Q96)	$13.13	Price/1997E	14.0x

(a) Excludes $0.16 in charges in 1Q (b) Excludes a gain of $0.29 in 1Q95, an $0.08 gain in 3Q95 (c) Excludes $5.02 in charges

1996-2000 Growth Ests.		Rel. Val. (S&P 500)	
		1991-95 P/E	0.85x
EPS Growth	10.0%	1997 Target P/E	1.02x
DPI Growth	5.4%	Price Target	$72

Comments: Solid, well-run company with 100% price-cap regulation of its telephone operations. Cellular exposure is below average, but operating results are outstanding. Likely to be one of first Bells into long-distance. **2L (Outperform, Low Risk)**.

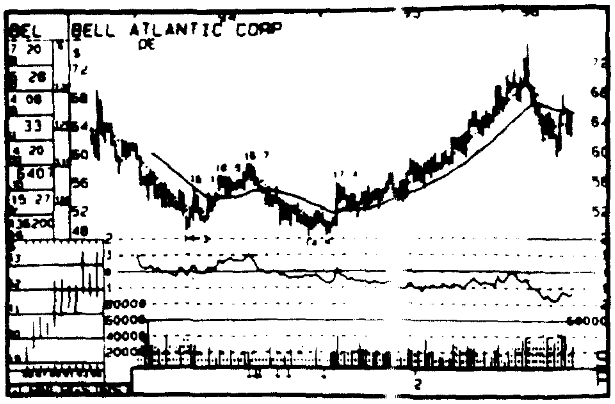


Chart Courtesy of Mansfield Chart Service

Bell Atlantic Corp. - Quarterly EPS

1996E	$1.07A	$1.10E	$1.10E	$1.00E	$4.28E
1995 (a)	$0.99	$1.01	$1.01	$0.90	$3.91
1994 (b)	$0.91	$0.95	$0.91	$0.76	$3.53
1993 (c)	$0.83	$0.90	$0.88	$0.78	$3.39

(a) Excludes $0.42 in gains
(b) Excludes $0.02 in charges in 1Q & $5.20 [illegible] 3Q and $0.04 in 4Q
(c) Excludes $0.21 in net charges

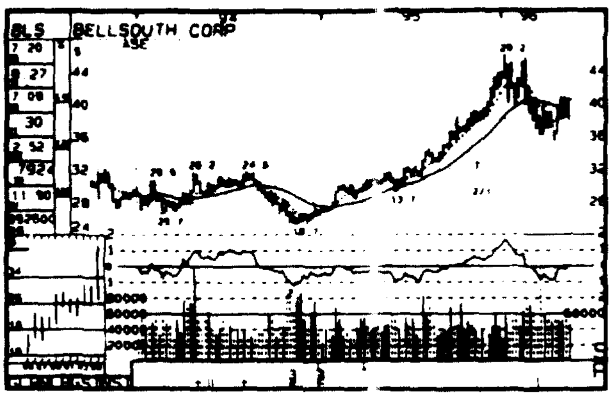


Chart Courtesy of Mansfield Chart Service

BellSouth Corp. - Quarterly EPS

1996E(a)	$0.63A	$0.62E	$0.61E	$0.65E	$2.50E
1995 (b)	$0.55	$0.56	$0.56	$0.57	$2.24
1994 (c)	$0.52	$0.52	$0.51	$0.52	$2.07
1993 (d)	$0.44	$0.43	$0.48	$0.49	$1.84

(a) Excludes $0.35 gain from the sale of paging operation
(b) Excludes a $2.74 charge in 2Q95 and $0.73 in 1Q96
(c) Excludes $0.07 net gain in 1Q94
(d) Excludes $0.94 in net charges

Bell Atlantic Corp. (BEL-NYSE)

Price (5/21/96)	$64	EPS 1997E	$4.68
52-Week Range	$75-$53	EPS 1996E	$4.28
Indicated Div.	$3.07	EPS 1995A	(a) $3.91
Yield	4.8%	EPS 1994A	(b) $3.53
BV/Share (1Q96)	$15.69	Price/1997E	13.6x

(a) Excludes $0.42 in gains (b) Excludes $5.26 in net charges

1996-2000 Growth Sets		Rel. Val. (S&P 500)	
		1991-95 P/E	0.93x
EPS Growth	9.5%	1997 Target P/E	1.02x
DPI Growth	1.4%	Price Target	$83

Comments: Telephone business operates in a highly-competitive environment, but cost and rate structure is one of best in industry. Company has above-average cellular position, with 34 million domestic POPs, and is a leader in developing broadband services for talc delivery. Merger with NYNEX should strengthen earnings growth outlook and competitive position. **2M (Outperform, Medium Risk)**.

BellSouth Corp. (BLS-NYSE)

Price (5/21/96)	$42	EPS 1997E	$2.80
52-Week Range	$46-$29	EPS 1996E	(a) $2.50
Indicated Div.	$1.44	EPS 1995A	(b) $2.24
Yield	3.5%	EPS 1994A	(c) $2.07
BV/Share (1Q96)	$12.57	Price/1997E	14.8x

(a) Excludes $0.35 gain from the sale of paging operation
(b) Excludes a $2.74 charge in 2Q95 and $0.73 in 1Q96
(c) Excludes $0.07 net gain.

1996-2000 Growth Sets		Rel. Val. (S&P 500)	
		1991-95 P/E	0.93x
EPS Growth	11.0%	1997 Target P/E	1.07x
DPS Growth	4.3%	Price Target	$50

Comments: Company has strong telephone operating outlook, with 70% of telco revenues under price-cap regulation, significant opportunities to cut costs, and below-average vulnerability to competition. Company has superb domestic cellular operation and attractive international cellular position, primarily in South America. Wireless business (domestic, international, and data) should boost EPS by 3%-5%. **1M (Buy, Medium Risk)**.

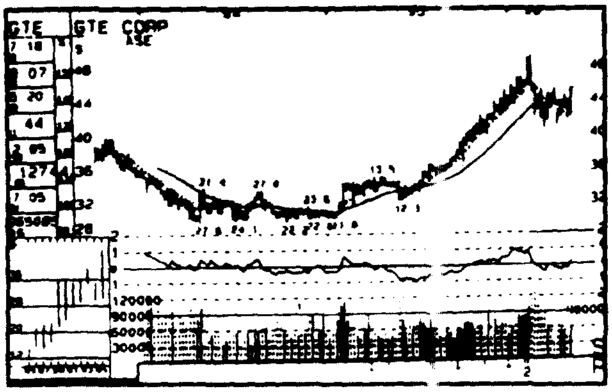


Chart Courtesy of Mansfield Chart Service

GTE Corp. - Quarterly EPS

1996 (a)	**$0.62A**	**$0.66E**	**$0.78E**	**$0.82E**	**$2.88E**
1995 (b)	**$0.56**	**$0.60**	**$0.71**	**$0.74**	**$2.61**
1994 (c)	**$0.52**	**$0.55**	**$0.64**	**$0.67**	**$2.38**
1993 (d)	**$0.48**	**$0.51**	**$0.59**	**$0.62**	**$2.20**

(a) Excludes $0.01 gain in 1Q
(b) Excludes $4.82 in charges
(c) Excludes $0.05 in charges
(d) Excludes $1.27 in charges, but includes gai[illegible] from sale of cellular interests

GTE Corp. (GTE-NYSE)

Price (5/21/96)	$45	EPS 1997E	$3.18
52-Week Range	$49-$32	EPS 1996E	(a) $2.88
Indicated Div.	$1.88	EPS 1995A	(b) $2.61
Yield	4.2%	EPS 1994A	(c) $2.38
BV/Share (1Q96)	$7.22	Price/1997E	14.1x

(a) Excludes $0.01 gain in 1Q (b) 1995 Excludes $4.82 in charges (c) 1994 Excludes $0.05 in charges

1996-2000 Growth Ests.		Rel. Val. (S&P 500)	
		1991-95 P/E	0.91x
EPS Growth	10%	1997 Target P/E	1.05x
DPS Growth	0%	Price Target	$56

Comments: Company has strong position in telephone and cellular. Telephone has above-average operating growth characteristics due to potential for cost reduction, high demand growth, and below-average competitive exposure. We believe that both telephone and cellular results are improving, and should generate corporate EPS growth of at least 10%. **1M (Buy, Medium Risk)**

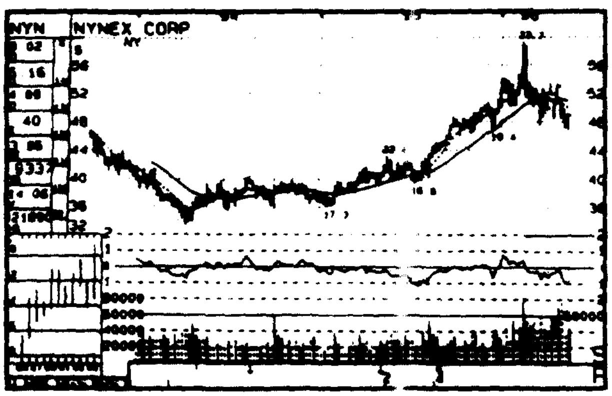


Chart Courtesy of Mansfield Chart Service

NYNEX Corp.- Quarterly EPS

1996E(a)	**$0.83A**	**$0.90E**	**$0.95E**	**$0.97E**	**$3.65E**
1995(b)	**$0.72**	**$0.81**	**$0.86**	**$0.88**	**$3.27**
1994 (c)	**$0.69**	**$0.67**	**$0.7[illegible]**	**$0.71**	**$2.78**
1993 (d)	**$0.81**	**$0.84**	**$0.7[illegible]**	**$0.74**	**$3.13**

(a) Excludes $0.11 in gains
(b) Excludes $0.01 gain in 3Q but includes a $[illegible]33 chg in 4Q
(c) Excludes $0.05 gain in 3Q.
(d) Excludes $4.08 in net charges

NYNEX Corp. (NYN-NYSE)

Price (5/21/96)	$47	EPS 1997E	$4.00
52-Week Range	$59-$38	EPS 1996E	(a) $3.65
Indicated Div.	$2.36	EPS 1995A	(b) $3.27
Yield	5.0%	EPS 1994A	(c) $2.78
BV/Share (1Q96)	$14.06	Price/1997E	11.8x

(a) Excludes $0.01 gain in 3Q but includes a $0.33 charge in 4Q
(b) Excludes $0.05 gain in 3Q

1996-2000 Growth Ests.		Rel. Val. (S&P 500)	
		1991-95 P/E	0.86x
EPS Growth	8.5%	1997 Target P/E	1.0x
DPS Growth	0%	Price Target	$64

Comments: Price-cap agreements in New York and Massachusetts have significantly improved NYN's earnings outlook, and the company has major potential to cut costs over the next several years. Cellular and other non-telco operations are smaller than average, although recent investments outside the United States are starting to be material. EPS growth expected to be strong in 1996-97 due to cost cutting. Merger with Bell Atlantic a major positive. **2M (Outperform, Medium Risk)**

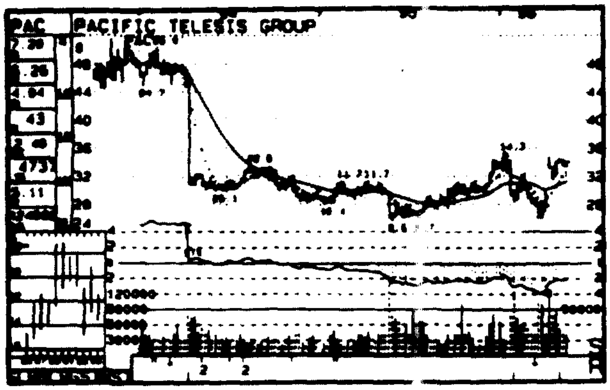


Chart Courtesy of Mansfield Chart Service

Pacific Telesis Group - Quarterly EPS

1996E(a)	$0.70A	$0.67E	$0.67E	$0.56E	$2.60
1995 (b)	$0.67	$0.61	$0.64	$0.54	$2.46
1994 (c)	$0.68	$0.72	$0.74	$0.62	$2.77

(a) Excludes $0.05 in charges.
(b) Excludes $7.84 in charges.
(c) Excludes $0.04 gain in 1Q94. $0.07 charge in Q

Pacific Telesis Group (PAC-NYSE)

Price (5/21/96)	$34	EPS 1997E	$2.35
52-Week Range	$35-$26	EPS 1996E	$2.60
Indicated Div.	$1.26	EPS 1995A	(a) $2.46
Yield	3.7%	EPS 1994A	(b) $2.77
BV/Share (1Q96)	$5.11	Price/1997E	14.4x

(a) Excludes $0.05 in charges.
(b) Excludes $7.84 in charges.
(c) Excludes $0.04 gain in 1Q94. $0.07 charge in 2Q

1996-2000 Growth Ests.		Rel. Val. (S&P 500)	
		1991-95 P/E	0.93x
EPS Growth	3.5%	1997 Target P/E	NM
DPS Growth	0.0%	Price Target	$46

NM= Not Meaningful

Comments: Revenue and EPS growth improving due to absence of rate cuts but results in 1997 will be down because of costs associated with PCS and broadband development. However, post-1998, EPS could be strong as PAC markets integrated (local, long-distance and wireless) services to one of the best telecommunications markets in the world. Recently upgraded to **1M (Buy, Medium Risk)** based on price weakness. Price target based on acquisition by SBC on basis of 0.733 share of SBC.

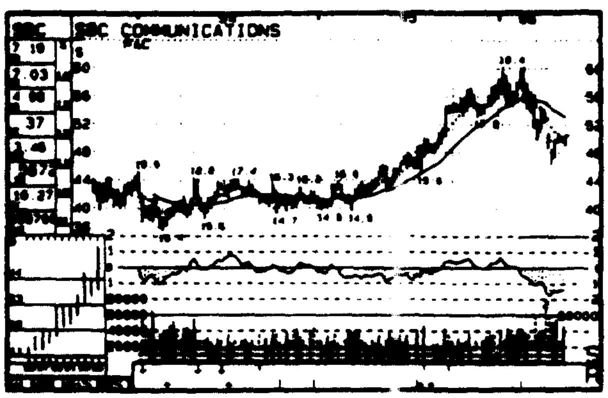


Chart Courtesy of Mansfield Chart Service

SBC Communications Inc. - Quarterly EPS

1996E	$0.76A	$0.82E	$0.95E	$0.89E	$3.42E
1995 (a)	$0.65	$0.73	$0.88	$0.84	$3.08
1994 (b)	$0.59	$0.64	$0.80	$0.77	$2.80
1993 (c)	$0.51	$0.56	$0.75	$0.64	$2.45

(a) Excludes $0.04 charge for peso devaluation in 1Q95, $4.63 charge for FAS 71 in 3Q95 and $0.02 in net gains in 1Q96
(b) Excludes $0.06 charge in 4Q94
(c) Excludes $0.25 in charges.
(d) Excludes charges of $0.02 in 1Q and $0.04 in 3Q.
(e) Excludes charges of $0.14 in 2Q and $0.08 in 4Q

SBC Communications Inc. (SBC-NYSE)

Price (5/21/96)	$50	EPS 1997E	$3.65
52-Week Range	$60-$43	EPS 1996E	(a)$3.42
Indicated Div.	$1.72	EPS 1995A	(b)$3.08
Yield	3.5%	EPS 1994A	(c)$2.80
BV/Share (1Q96)	$10.57	Price/1997E	13.6x

(a)
(b) Excludes $0.04 charge for peso devaluation in 1Q95, $4.63 charge for FAS No.71 in 3Q95 and $0.02 in net gains in 1Q96.
(c) Excludes $0.06 charge in 4Q94.

1996-2000 Growth Ests.		Rel. Val. (S&P 500)	
		1991-95 P/E	0.96x
EPS Growth	10.1%	1997 Target P/E	1.07x
DPS Growth	5.4%	Price Target	$63

Comments: Company is extremely strong fundamentally, with attractive positions in telephone, wireless and international. Company has premier domestic cellular holdings that should boost corporate EPS growth by 4%, plus attractive international position through 10% ownership of TELMEX, although peso devaluation will cut 1995-96 earnings from that source. SBC's diversification/expansion achievements have been outstanding and believe proposed acquisition of PAC is a positive. **1L(Buy, Low Risk).**

U S West Communications Group (USW-NYSE)

Price (5/21/96)	$34	EPS 1997E	$2.58
52-Week Range	$38-$23	EPS 1996E	(a) $2.42
Indicated Div.	$2.14	EPS 1995E	(a) $2.35
Yield	6.3%	EPS 1994A	(b) $2.42
BV/Share (1Q96A)	$7.36	Price/1997E	13.0x

(a) Excludes $0.08 in charges for switch to SFAS #121 in 1Q
(a) Excludes $0.15 in one-time gains.
(b) Excludes $0.43 from the sale of certain assets.

1996-2000 Growth Ests.		Rel. Val. (S&P 500)	
		1991-95 P/E	0.91x
EPS Growth	5.5%	1997 Target P/E	0.82x
DPS Growth	0%	Price Target	$36

Comments: Target stock that represents US West Inc.'s telephone operations. We value USW at $36. Earnings should be flat through 2H96, as company improves service quality and re-engineers network. Company is still under rate-of-return regulation and may have difficulties moving into price-cap regulation on reasonable terms. **3M (Neutral, Medium Risk)**

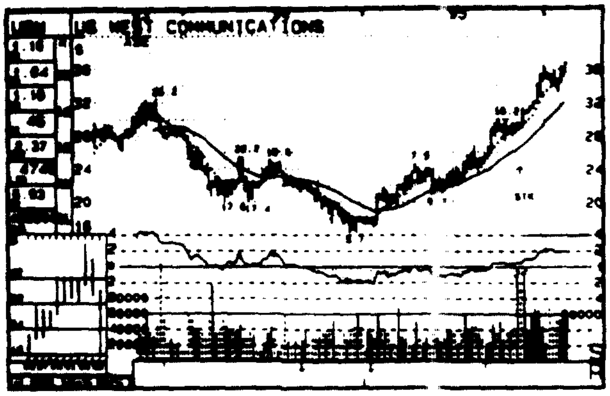


Chart Courtesy of Mansfield Chart Service

U S West Comm. Group Quarterly EPS

1996E	**$0.61A**	**$0.61E**	**$0.60E**	**$0.60**	**$2.42**
1995 (a)	**$0.59**	**$0.60**	**$0.59**	**$0.57**	**$2.35**
1994 (b)	**$0.63**	**$0.60**	**$0.59**	**$0.61**	**$2.42**
1993 (c)	**$0.71**	**$0.70**	**$0.69**	**$0.62**	**$2.72**

(a) Excludes $0.15 in one-time gains
(b) Excludes $0.43 from the sale of certain assets.
(c) Excludes $9.06 in net charges and $0.20 in net charges from discontinued operations.
(d) Excludes $4.31 in net charges and $0.25 gain from discontinued operations.
(e) Excludes net charge of $1.44 in 4Q

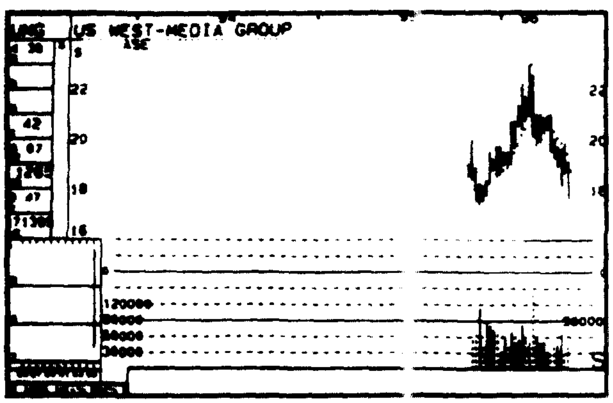
U S West Media Group (UMG-NYSE)

Price (5/21/96)	$19	EPS 1997E	$(0.05)
52-Week Range	$22-$17	EPS 1996E	$0.05
Indicated Div.	Nil	EPS 1995A	(a) $0.13
Yield	Nil	EPS 1994A	$0.23
BV/Share (1Q96A)	$0.02	Price/1997E	NM

(a) Excludes $0.19 in one-time gains.

1996-2000 Growth Ests.		Rel. Val. (S&P 500)	
EPS Growth	NM	1997 Price Target	$23

Comments: Target stock that represents U S West Inc.'s non-telephone assets: directory publishing, and domestic and international cable and wireless. UMG's investments can have a wide range of valuations. EBITDA growth should be in the 20% range over the next two years and 10%-15% after 1997. **2H (Outperform, High Risk)**



U S West Media Quarterly EPS

1996E	**$0.00**	**$0.02**	**$0.02**	**$0.00**	**$0.05**
1995 (a)	**$0.03**	**$0.05**	**$0.08**	**$(0.04)**	**$0.13**
1994	**$0.06**	**$0.09**	**$0.07**	**$0.01**	**$0.23**

(a) Excludes $0.19 in one-time gains.

INDEPENDENT TELCOS AND OTHERS

Point of View: The independent elephone companies typically are more profitable and face less competition than do the Bell Companies. This reflects a combination of favorable factors, primarily: (1) less regulatory scrutiny; (2) somewhat faster demand growth; and (3) the low-density nature of most of their territories. Thus, their operating risk/return profile is extremely attractive. In addition, most of them have greater relative cellular exposure with less potential competition—at least in the early years—from PCS services, since new operators are expected to focus initially on service to major cities. Finally, because of the ongoing consolidation in the industry, many independents have been successful in expanding through acquiring smaller telephone and cellular properties. For all of these reasons, the independent telephone companies generally have EPS growth rates in excess of 10%. The one potential negative in the independents' outlook is increasing regulatory and legislative focus on universal service subsidies that go to the smaller telcos.

Major Concern: Current high earnings levels at telephone operations, which may result in more regulatory attention in the future, particularly as the whole subsidy process gets reviewed.

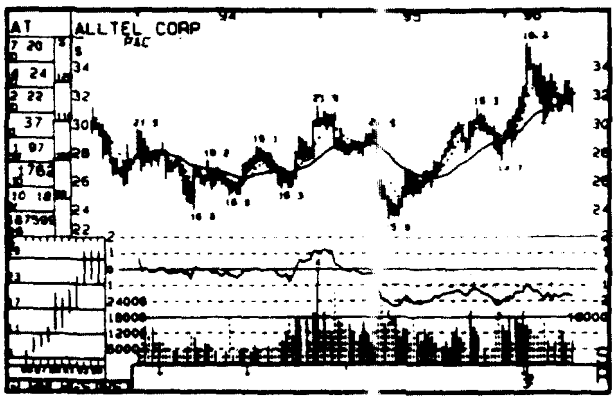


Chart Courtesy of Mansfield Chart Service

ALLTEL Corp. Quarterly EPS

1996E(a)	**$0.45A**	**$0.48E**	**$0.50E**	**$0.52**	**$1.95**
1995 (b)	**$0.41**	**$0.43**	**$0.45**	**$0.47**	**$1.76**
1994 (c)	**$0.38**	**$0.40**	**$0.42**	**$0.40**	**$1.60**
1993 (d)	**$0.34**	**$0.34**	**$0.35**	**$0.37**	**$1.39**

(a) Excludes $0.01 in charges in 1Q
(b) 2Q95 excludes $0.09
(c) 4Q94 excludes $0.17 due to a tax charge on certain assets
(d) Numbers restated; 1Q excludes $0.06 charge

ALLTEL Corp. (AT-NYSE)

Price (5/21/96)	$33	EPS 1997E	$2.25
52-Week Range	$36-$24	EPS 1996E	(a) $1.95
Indicated Div.	$1.04	EPS 1995A	(b) $1.76
Yield	3.2%	EPS 1994A	(c) $1.60
BV/Share (1Q96)	$10.86	Price/1997E	14.5x

(a) Excludes $0.01 in charges in 1Q.
(b) 2Q95 excludes $0.09 gain and 1Q96 excludes $0.01 gain.
(c) 4Q94 excludes $0.17 due to a tax charge on certain assets.

1996-2000 Growth Ests.		Rel. Val. (S&P 500)	
		1991-95 P/E	1.01x
EPS Growth	11.0%	1997 Target P/E	1.1x
DPS Growth	8.0	Price Target	$42

Thesis: Well-run telephone company with significant unregulated activities principally in cellular, software services and distribution. Telephone earnings growth expected to be below potential 6%-8% rate due to current high levels of profitability. Cellular and Information Services (formerly Systematics) have been significant contributors to EPS growth, although recent results at IS have been slipping due to consolidation in banking industry.

1M (Buy, Medium Risk).

ALLTEL is Our Top Pick of the Year

Biggest Concerns: Current telephone earnings level; pickup at Information Services (i.e. new contracts).

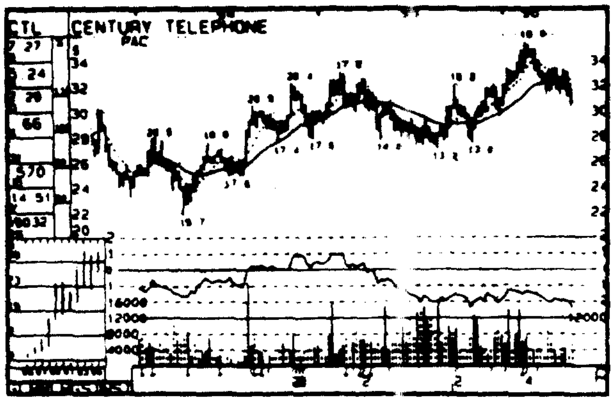


Chart Courtesy of Mansfield Chart Service

Century Telephone Quarterly EPS

1996E(a)	$0.51A	$0.52E	$0.60E	$0.56E	$2.19E
1995 (b)	$0.44	$0.45	$0.54	$0.50	$1.93
1994 (c)	$0.35	$0.39	$0.44	$0.46	$1.64
1993 (d)	$0.30	$0.31	$0.33	$0.32	$1.26

(a) Excludes a $0.01 charge for termination of GO Communications
(b) Excludes a $0.03 gain.
(c) Excludes a $0.16 gain on the sale of assets in 4Q94
(d) 1Q excludes $0.02 gain; 2Q excludes $0.0[illegible] credit

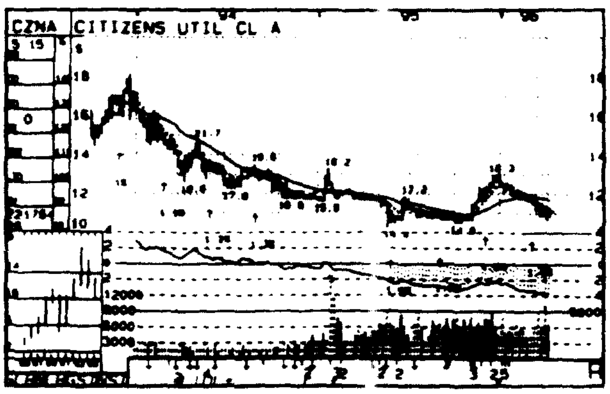


Chart Courtesy of Mansfield Chart Service

Citizens Utilities# Quarterly EPS

1996E	$0.17A	$0.21	$0.21	$0.20	$0.82E
1995	$0.15	$0.19	$0.20	$0.18	$0.73
1994	$0.16	$0.19	$0.19	$0.18	$0.72
1993	$0.16	$0.18	$0.18	$0.15	$0.67
1992	$0.22	$0.16	$0.09	$0.09	$0.56

Figures adjusted for annual stock dividend.

Century Telephone Enterprises (CTL-NYSE)

Price (5/21/96)	$32	EPS 1997E	$2.47
52-Week Range	$36-$27	EPS 1996E	(a) $2.19
Indicated Div.	$0.33	EPS 1995A	(b) $1.93
Yield	1.0%	EPS 1994A	(c) $1.64
BV/Share (1Q96)	$15.28	Price/1997E	12.9x

(a) Excludes a $0.01 charge for termination of GO Communications (b) Excludes a $0.03 gain (c) Excludes a $0.16 gain

1996-2000 Growth Ests.		Rel. Val. (S&P 500)	
		1991-95 P/E	1.12x
EPS Growth	10.9%	1997 Target P/E	1.1x
DPS Growth	12.3%	Price Target	$44

NM= Not Meaningful

Thesis: Company has built strong, contiguous cellular and telephone operations in upper Midwest and South. CTL has 7.1 million cellular POPs, which gives it 5x-6x the cellular exposure of the large telcos.
1M (Buy, Medium Risk).

Biggest Concern: Ability to sustain or improve already high returns on telephone operations.

Citizens Utilities# (CZNA-NYSE)

Price (5/21/96)	$12	EPS 1997E	$0.90
52-Week Range	$13-$10	EPS 1996E	$0.82
Indicated Div.	(a)	EPS 1995A	$0.73
Yield	6.4%E	EPS 1994A	$0.72
BV/Share (1Q96E)	$6.92	Price/1997E	13.5x

(a) Dividend is paid in stock and set annually on a targeted yield basis

1996-2000 Growth Ests.		Rel. Val. (S&P 500)	
		1991-95 P/E	1.07
EPS Growth	9%	1997 Target P/E	0.9x
DPS Growth	0%	Price Target	$14

NM= Not Meaningful

Thesis: CZNA is a broadly diversified utility with operations in telecom, electric, gas, and water and wastewater services. It has a 51-year record of consistent earnings growth and a high-quality balance sheet. New management has been rapidly expanding telecom position through acquisitions.
3L (Neutral, Low Risk)

Biggest Concerns: Changes in telephone subsidy levels.

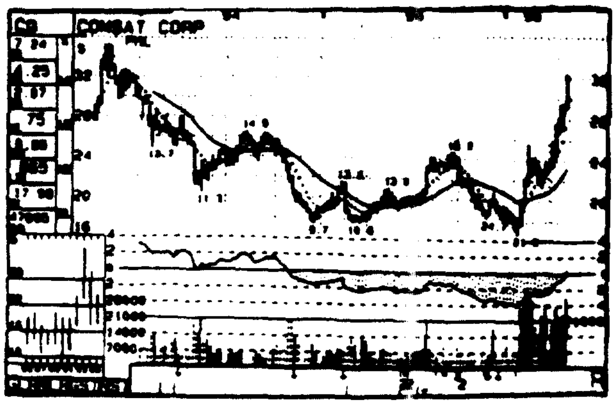


Chart Courtesy of Mansfield Chart Service

COMSAT Corp. Quarterly EPS

1996E	$0.19A	$0.19	$0.25	$0.24	$0.85
1995A(a)	$0.28	$0.35	$0.14	$0.14	$0.92
1994 (b)	$0.43	$0.46	$0.46	$0.35	$1.70
1993 (c)	$0.44	$0.49	$0.47	$0.41	$1.81

(a) Excludes $0.12 in charges.
(b) Excludes $0.13 in charges.
(c) 1Q and 3Q excludes $0.07 in charges and reserves.
(d) Excludes $0.60 in charges.
(e) Excludes $0.70 charge for FASB No. 106.

COMSAT Corp. (CO-NYSE)

Price (5/21/96)	$30	EPS 1997E	$0.90
52-Week Range	$33-$17	EPS 1996E	$0.85
Indicated Div.	$0.78	EPS 1995A	(a) $0.92
Yield	2.6%	EPS 1994A	(b) $1.70
BV/Share (1Q96)	$17.50	Price/1997E	NM

(a) Excludes $0.12 in charges.
(b) Excludes $0.13 in charges.

1995-99 Growth Ests.		Rel. Val. (S&P 500)	
		1991-95 P/E	1.03
EPS Growth	15.0%	1996 Target P/E	NM
DPS Growth	0.0%	Price Target	$35-$44

Thesis: Reported EPS being hurt by Ascent Entertainment (publicly traded under GOAL), higher interest expenses because of new investments and sluggish results at Mobile. Despite the lackluster earnings outlook, the stock appears cheap and could be helped by further spin-off sales of operations and the potential for privatization of Inmarsat, INTELSAT in 1997. Stock was recently downgraded to **2M (Outperform, Medium Risk)** due to price appreciation and deteriorating earnings outlook. Value stock at 2x-2.5x book value.

Biggest Concerns: Flattening demand in Mobile; increased satellite competition.

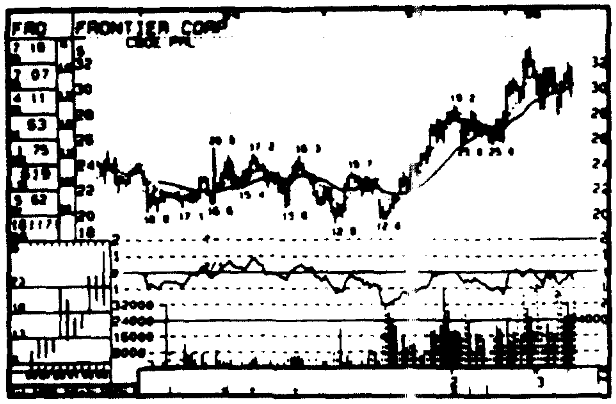


Chart Courtesy of Mansfield Chart Service

Frontier Corp.# Quarterly EPS

1996E	$0.39A	$0.42E	$0.45E	$0.48E	$1.75
1995(a)	$0.31	$0.33	$0.35	$0.36	$1.35
1994	$0.25	$0.27	$0.29	$0.31	$1.12

(a) Excludes $0.01 in charges in 1Q.
(b) 1994A, 1995A, 1996E estimates are pro-forma for ALC acq.
3Q95 excludes $1.25 in charges and 1Q96 excludes $0.02 charge

Frontier Corp.# (FRO-NYSE)

Price (5/21/96)	$30	EPS 1997E	$2.05
52-Week Range	$33-$20	EPS 1996E	(a) $1.75
Indicated Div.	$0.85	EPS 1995A	(b) $1.35
Yield	2.7%	EPS 1994A	$1.12
BV/Share (1Q96)	$5.50	Price/1997E	14.8x

(a) Excludes $0.01 in charges in 1Q. (b) 1994A, 1995A, 1996E estimates are pro-forma for ALC acq.
3Q95 excludes $1.25 in charges and 1Q96 excludes $0.02 charge.

1996-2000 Growth Ests.		Rel. Val. (S&P 500)	
		1991-95 P/E	1.00
EPS Growth	12.0%	1997 Target P/E	1.1x
DPS Growth	4.9%	Price Target	$38

NA- Not Available

Thesis: FRO is a medium-sized, diversified telecommunications company with a strong operating position in telephone and long-distance. Over the past several years, the company has had rapid growth in both revenues and earnings as a result of aggressive acquisitions of small, fast-growing independent telephone companies, rapid expansion of long-distance, and continued growth in cellular. Post-merger with ALC has made it a major long-distance player, with about half of operating income coming from that sector. Stock rating recently upgraded to **2M (Outperform, Medium Risk)**.

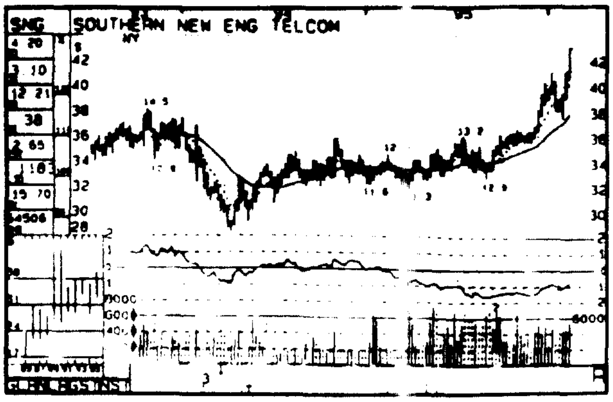


Chart Courtesy of Mansfield Chart Service

SNG#- Quarterly EPS

1996E	$0.80A	$0.79E	$0.76E	$0.70E	$3.15
1995(a)	$0.72	$0.74	$0.64	$0.62	$2.72
1994	$0.68	$0.71	$0.73	$0.65	$2.77

(a) Excludes $0.12 in net charges and $10.54 per share charge in 1Q96

Southern New England Telecommunications Corp.# (SNG-NYSE)

Price (5/21/96)	$43	EPS 1997E	$3.45
52-Week Range	$46-$36	EPS 1996E	$3.15
Indicated Div.	$1.76	EPS 1995A	(a) $2.72
Yield	4.1%	EPS 1994A	$2.77
BV/Share (1Q96)	$5.90	Price/1997E	12.8x

(a) Excludes $0.12 in net charges and $10.54 per share charge

1996-2000 Growth Ests.		Rel. Val. (S&P 500)	
		1991-95 P/E	0.80x
EPS Growth	9.0%	1997 Target P/E	0.76x
DPS Growth	3.4%	Price Target	$52

Thesis: SNET is small, full-service telecom company serving virtually all of Connecticut. Company is cutting costs on telephone operations, which are expected to grow at rapid rate in 1996-97. New management has made major investments in cellular and long-distance, and plans accelerated rollout of statewide broadband networks. These investments offer potential for substantial earnings gains post-1996. Lucrative Connecticut market is expected to attract a lot of competition as Commission opens market in 1996. **2M (Outperform, Medium Risk)**

Biggest Concerns: Ability to sustain current growth after conclusion of significant cost reduction in telephone operations; competitive pressure.

LONG-DISTANCE

Point of View: The long-distance industry is currently benefiting from a stable price structure and good demand levels. With access rates likely to decline gradually over the next few years, there is the potential for continued well-above-average growth rates. However, we believe that with the spectre of the Bells being allowed into long-distance within 12-24 months, uncertainty about investment and/or strategy for competing in the local exchange market, and potential for pricing weakness, there is a substantial degree of uncertainty about the earnings outlook for the industry. We don't have a high degree of confidence in our long-term growth rate forecasts but we think EPS growth post-1996 could be flat or down for the major carriers

Major Concern: Bell entry into long-distance; increased price competition among existing vendors; returns on investment in new wireless and local-exchange facilities:

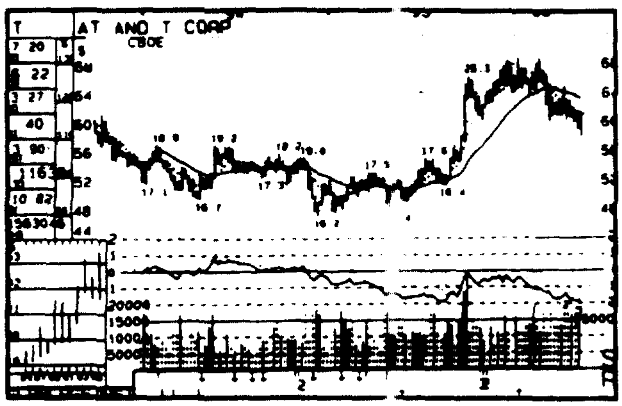


Chart Courtesy of Mansfield Chart Service

AT&T Quarterly EPS

1996E	**$0.90A**	**$0.92E**	**$0.98E**	**$0.95**	**$3.75E**
1995 (a)	**$0.76**	**$0.85**	**$0.90**	**$0.94**	**$3.45**
1994 (b)	**$0.69**	**$0.77**	**$0.82**	**$0.85**	**$3.13**
1993 (c)	**$0.69**	**$0.74**	**$0.78**	**$0.81**	**$3.02**

(a) Excludes $0.74 charge in 3Q and $2.61 chg in 1Q96.
(b) Excludes $0.12 in charges.
(c) Excludes accounting and restructuring charges except for ongoing effect of FASB No 112

AT&T (T-NYSE)

Price (5/21/96)	$63	EPS 1997E	(f) $3.95
52-Week Range	$69-$49	EPS 1996E	(f) $3.75
Indicated Div.	$1.32	EPS 1995E	(f) (a) $3.45
Yield	2.1%	EPS 1994A	(f) (b) $3.13
BV/Share (1Q96)	$10.82	Price/1997E	15.8x

(a) Excludes $0.74 charge in 3Q and $2.61 charge in 1Q96.
(b) Excludes $0.12 in charges.

1996-2000 Growth Ests.		Rel. Val. (S&P 500)	
		1991-95 P/E	0.97x
EPS Growth (f)	5.0%	1997 Target P/E	1.0x
DPS Growth (f)	0%	Price Target	$63

(f) Forecasts have been adjusted to account for the spin-off of Lucent Technologies

Thesis: Communications revenue growth under competitive pressure, but operation should be able to grow profits at a 10% annual rate in 1995-96 through cost reduction. 1998 services earnings likely to be flat at best due to Bell entry into long-distance. Local facilities strategy unclear. Restructuring expected to be completed by 3Q96/4Q96.

3M (Neutral, Medium Risk)

Biggest Concerns: Competitive pressures; effective reinvestment of cash flow; nearer-term entry of the RBOCs into long-distance.

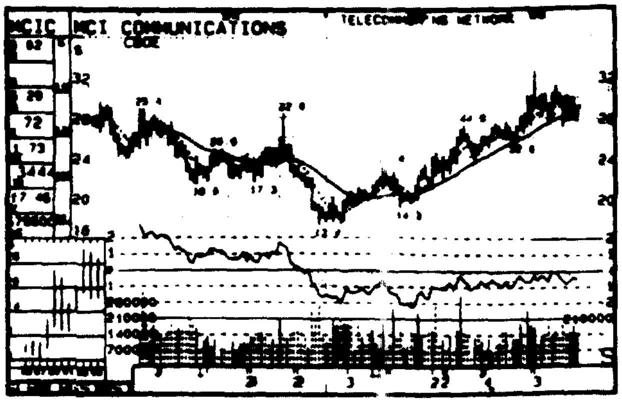


Chart Courtesy of Mansfield Chart Service

MCI Communications* (MCIC-OTC)

Price (5/21/96)	$29	EPS 1997E	$1.85
52-Week Range	$31-$19	EPS 1996E	$1.73
Indicated Div.	$0.05	EPS 1995A	(a) $1.55
Yield	0.2%	EPS 1994A	(b) $1.47
BV/Share (1Q96)	$13.84	Price/1997E	15.7x

(a) Excludes a $0.75 charge in 3Q95.
(b) Excludes $0.07E charge in 4Q94.

1996-2000 Growth Ests.		Rel. Val. (S&P 500)	
		1991-95 P/E	1.09x
EPS Growth	7.9%	1997 Target P/E	1.0x
DPS Growth	0%	Price Target	$35

Thesis: Company is attempting to reposition itself from a seller of long-distance minutes to a supplier of applications packages and value-added services such as outsourcing. This change in focus, if successful, should improve the company's competitive and profit potential, but will take some years to accomplish. Meanwhile, EPS are under pressure from the dilution of these new investments. Company's wireless strategy of becoming a reseller is a gamble, but a reasonable one. **3M (Neutral, Medium Risk)**

Biggest Concerns: Potential RBOC entry into long-distance, marketing pressure from AT&T.

MCI* Quarterly EPS

1996E	$0.42A	$0.42E	$0.45E	$0.45E	$1.73E
1995(a)	$0.36	$0.38	$0.40	$0.41	$1.55
1994(b)	$0.36	$0.37	$0.38	$0.35	$1.47
1993(c)	$0.31	$0.32	$0.33	$0.34	$1.30

(a) Excludes $0.75 charge in 3Q.
(b) Excludes an estimated $0.07 charge in 4Q.
(c) Excludes $0.07E charge in 4Q.

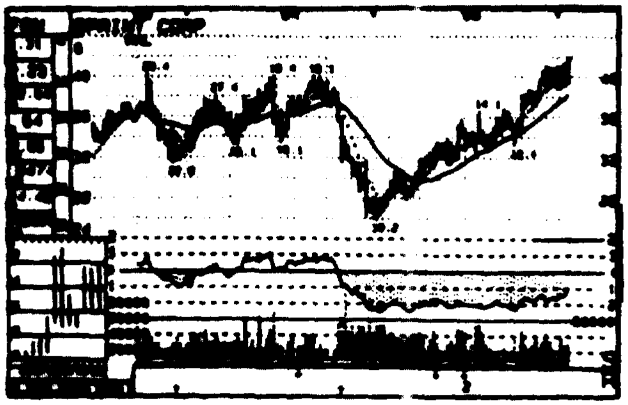


Chart Courtesy of Mansfield Chart Service

Sprint Corp. (FON-NYSE)

Price (5/21/96)	$43	EPS 1997E	(d) $2.71
52-Week Range	$44-$26	EPS 1996E	(d) $2.99
Indicated Div.	$1.00	EPS 1995A	(a) $2.84
Yield	2.2%	EPS 1994A	(b) $2.47
BV/Share (1Q96)	$21.69	Price/1997E	16.0x

(a) Excludes $1.77 in charges.(b) Excludes $0.06 gain.

1996-2000 Growth Ests.		Rel. Val. (S&P 500)	
EPS Growth (d)	3.5%	1991-95 P/E	0.87x
DPS Growth (d)	0%	1997 Target P/E	1.0x
Price Target	$56	NM - Not Meaningful	

(d) Forecasts have been adjusted to account for spin-off of cellular operations.

Sprint Corp. Quarterly EPS

1996E(a)	$0.78A	$0.74E	$0.76E	$0.72E	$2.99E
1995(b)	$0.64	$0.69	$0.75	$0.76	$2.84
1994(c)	$0.59	$0.63	$0.66	$0.59	$2.47
1993(c)	$0.45	$0.48	$0.51	$0.55	$1.99
1992(c)	$0.31	$0.31	$0.37	$0.38	$1.37

(a) Excludes $1.77 in charges.
(b) Excludes $0.06 gain in 1Q.
(c) Excludes major gains, credits, and charges.

Thesis: Premier telephone company and improving long-distance operations although performance of the latter has been erratic historically. However, both business have extremely strong current momentum. Company is strategically well positioned through domestic alliances with cable companies and international alliances with Deutsche Telekom and France Telecom. Expect earnings to flatten or decline post-1996 due to PCS costs and Bell entry into long-distance. **2M (Outperform, Medium Risk)**.

Biggest Concerns: RBOC entry into long-distance; success of PCS entry; effective implementation of alliances.

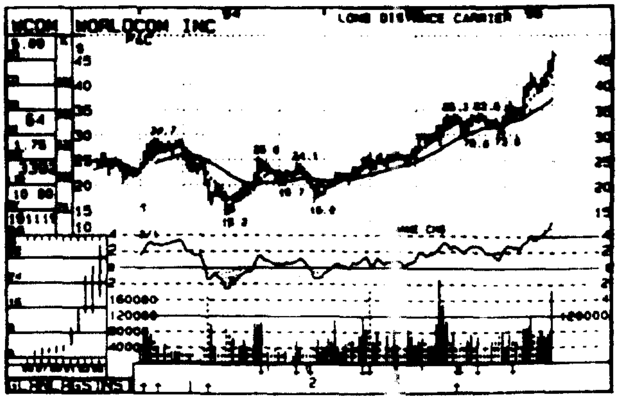


Chart Courtesy of Mansfield Cha Service

WorldCom, Inc. (WCOM-OTC)

Price (5/21/96)	$50	EPS 1997E	$2.23
52-Week Range	$50-$24	EPS 1996E	$1.81
Indicated Div.	Nil	EPS 1995A	$1.36
Yield	Nil	EPS 1994A	$1.04
BV/Share (1Q96)	$10.8	Price/1997E	22.4x

1996-2000 Growth Ests.		Rel. Val. (S&P 500)	
EPS Growth (d)	20%	1991-95 P/E	NM
DPS Growth (d)	0%	1997 Target P/E	1.0x
Price Target	$49		

Thesis: One of the nation's fastest-growing long-distance companies. The key to the company's success has been its strategy of focusing on distinct segments of the IXC market. This well-developed strategy, combined with economies of scale and scope resulting from dozens of acquisitions and the company's direct sales approach has resulted in explosive growth. WCOM's stock has doubled in a little over a year, and we believe it is fairly valued at its present price. **3H (Neutral, High Risk)**.

Biggest Concerns: RBOC entry into long-distance; success of PCS entry;. continuing earnings momentum.

WorldCom, Inc., Quarterly EPS

1996E(a)	$0.42A	$0.44E	$0.46E	$0.49E	$1.81E
1995(b)	$0.28	$0.33	$0.37	$0.40	$1.36A

Companies mentioned in this report

ALLTEL Corp. - AT (NYSE-$33)
AT&T - T (NYSE-$63)
Ameritech Corp. - AIT (NYSE-$59
Bell Atlantic Corp. - BEL (NYSE-$64)
BellSouth Corp. - BLS (NYSE-$42
Century Telephone Enterprises - CTL (NYSE-$32)
COMSAT Corp. - CQ (NYSE-$30)
Frontier Corp. - FRO (NYSE-$30)
GTE Corp. - GTE (NYSE-$45)
Intermedia Communications of Florida, Inc.*# - ICIX (OTC-$33)
MCI Communications * - MCIC (OTC-$29)
MFS Communications Co. Inc.* - MFST (OTC-$36)
NYNEX Corp. - NYN (NYSE-$47)
Pacific Telesis Group - PAC (NYSE-$34)
SBC Communications - SBC (NYSE-$50)
Sprint Corp. - FON (NYSE-$43)
U S West Communications Group - USW (NYSE-$34)
U S West Media Group - UMG (NYSE-$19)
WorldCom Inc. WCOM (OTC-$50

Stock prices as of the close on May 21,1996

Additional information is available upon request.

Previous Report: February 28, 1996

* Smith Barney usually maintains a market in the securities of this company

Within the last three years, Smith Barney or one of its affiliates was the manager (co-manager) of a public offering of the securities of this company or an affiliate.

Guide to Investment Ratings: **RANK** is a guide to the expected total return over the next 12-18 months. The total return required for a given rank depends on the degree of risk (see below) in a stock. The higher the risk, the higher the required return. For example, a 1 (Buy) rating indicates a total return ranging from 15% or greater for a low-risk stock to 30% or greater for speculative stocks. Estimated returns for other risk categories are scaled accordingly. **RISK** takes into account predictability of earnings and dividend, financial leverage, and stock price volatility. L (**Low Risk**): predictable earnings and dividends, suitable for the conservative investor. M (**Medium Risk**): moderately predictable earnings and dividends, suitable for the average equity investor. H (**High Risk**): earnings and dividends are less predictable, suitable for the aggressive investor. S (**Speculative**): very low predictability of fundamentals and a high degree of volatility, suitable only for investors/traders with diversified portfolios that can withstand material losses. V (**Venture**): indicates a stock with venture capital characteristics that is suitable for sophisticated investors with a high tolerance for risk and broadly diversified investment portfolios.
A thorough explanation of Smith Barney's rating system is provided in our weekly *Portfolio Strategist*.

Telecommunications Update

Industry Update and Outlook

- **Unveiling post-legislation offensive/defensive strategies.** From the previously announced AT&T break-up II to the proposed merger of Bell Atlantic and NYNEX, companies are positioning themselves for increased competition and growth opportunities in the post-legislation world. And, in the first merger of its kind, MFS Communications has proposed to acquire Internet-service provider UUNET. While many of these deals were in the works prior to the bill's passage, enactment of the Telecom Act of 1996 has accelerated the pace. We expect these deals to have significant ramifications for the industry as it adapts to the dramatic changes augmented by legislation and technological advancement.

- **Large Telcos: Expected stable to accelerating revenue growth throughout 1996 should lead to 10% earnings gains or better** for most telcos and GTE. We expect the telcos to generate steady volume and access line growth when compared to the strong first quarter 1996 levels with continued accelerating expansion in value-added services such as second lines, caller ID, and voice messaging, all of which should lead to stable to improved EPS growth throughout the rest of 1996. **Our Buy rated telcos include: Ameritech, Bell Atlantic, SBC Communications, GTE, and Pacific Telesis.**

- **Long distance companies should continue to generate strong revenue and volume growth that should translate into double-digit EPS gains for AT&T and MCI and higher for WorldCom and Frontier.** After a strong first quarter, we look for 1996 revenues for the industry to advance at the high end of our 8%-9% forecast. The catalyst will be higher volume revenue and benefits from demand for new applications such as the Internet and enhanced data services. We also look for increased wholesale demand as the RHCs, and GTE in particular, begin to enter the long distance market. **Our Buy rated stocks include: AT&T, MCI Communications, Frontier, and WorldCom.**

- **Cellular subscriber gains should remain stable as wireless carriers focus on profitability.** We expect year-to-year subscriber growth to continue around 30% for full year 1996. Operating cash flow margins should increase to nearly 38% on average (versus approximately 36% in 1995) as companies focus on reducing churn rates and acquisition costs to produce a better balance between subscriber growth and profitability.

- **Competitive access providers (CAPs) continue to build out their networks in new and existing markets.** As the primary beneficiaries of federal legislation and state regulatory momentum, CAPs should see robust revenue growth as local markets open and the CAPs expand vertically and horizontally. **Our Buy rated CAPs include: MFS Communications and Intermedia Communications.**

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- **Bell Atlantic (BEL) Rating: Buy** 33
- **BellSouth (BLS) Rating: Hold** 37
- **NYNEX (NYN) Rating: Hold** 40
- **Pacific Telesis (PAC) Rating: Buy** 44
- **SBC Communications (SBC) Rating: Buy** 47
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- **MCI Communications (MCIC) Rating: Buy** 61
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- **Frontier Corporation (FRO) Rating: Buy** 70
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Investment Summary

Industry consolidation and restructuring reflects the challenges and growth opportunities of increased competition

The telecommunications services industry generally lagged the market in the first quarter 1996 with most of the decline following the February 8th enactment of the telecommunications legislation. Since the bill was signed into law, large telcos have been the hardest hit, down 8.3% relative to the S&P 500. Long distance companies have fared better, underperforming by only 0.3%, thanks in part to the strong price performance by WorldCom. The standouts are the competitive access providers, which we view as the strongest beneficiaries of the changes within the telecommunications industry. Intermedia Communications and MFS Communications have outperformed the S&P 500 by 110.1% and 10.3%, respectively.

Following the enactment of telecom legislation, companies are unveiling their strategies to meet the challenges of open markets and increased competition. While AT&T is focusing on core telecommunication services by selling or spinning off business units - Lucent Technologies, NCR and AT&T Capital - other companies are combining to gain from scale and scope. **Going forward in a post-legislative world, we anticipate greater stock selectivity among individual names as strategic differentiation increasingly separates winners and losers.** Rather than selecting one industry segment over another, we remain focused on individual companies that combine key favorable attributes within their respective segments, such as revenue and earnings momentum, exposure to fast-growing businesses, and cost containment, as well as market differentiation, brand recognition, and competitive pricing.

Table 1: Buy-Rated Stock Prices & Price Targets

Company	Ticker	Current Price	6-12 Month Target	Earnings Per Share 1995A	Earnings Per Share 1996E	Earnings Per Share 1997E	P/E Ratios 1996E	P/E Ratios 1997E	Div Yield
Ameritech	AIT	$56.50	$71	3.41	3.80	4.20	14.9	13.5	3.8%
Bell Atlantic	BEL	$62.50	$80	3.88	4.30	4.70	14.5	13.3	4.5%
GTE Corporation	GTE	$42.63	$54	2.61	2.90	3.23	14.7	13.2	4.4%
Pacific Telesis	PAC	$33.25	$40	2.46	2.63	2.45	12.6	13.6	3.8%
SBC Communications	SBC	$49.38	$63	3.08	3.40	3.80	14.5	13.0	3.5%
Frontier Corporation	FRO	$32.13	$40	1.35	1.70	2.00	18.9	16.1	2.6%
MCI Communications	MCIC	$29.13	$40	1.55	1.70	1.90	17.1	15.3	0.2%
AT&T	T	$62.38	$80	3.30	3.70	4.10	16.9	15.2	2.1%
WorldCom Inc.	WCOM	$48.88	$62	1.36	1.80	2.35	27.2	20.8	0.0%
AirTouch Comm.	ATI	$31.88	$40	0.27	0.32	0.53	NM	NM	0.0%
U S West Media	UMG	$18.88	$28	0.12	0.05	(0.65)	NM	NM	0.0%
Intermedia Comm. (1)	ICIX	$35.00	$44	0.07	(0.65)	(0.55)	NM	NM	0.0%
MFS Communications (1)	MFST	$34.75	$51	(0.76)	(0.18)	0.40	N/M	NM	0.0%

(1) ICIX and MFST represent operating cash flow per share.
Target prices are based on relative P/E multiples to the S&P 500, except where a sum-of-the-parts or DCF valuation is used.
Estimates for AT&T are for continuing operations only.
Current Prices as of 5/31/96

Table 4: Telecom Universe Matrix

5/31/96	LOCAL								LONG DISTANCE					CAPS		Wireless/Other	
Core Businesses:	**AIT**	**BEL**	**BLS**	**NYN**	**PAC**	**SBC**	**USW**	**GTE**	**FRO**	**MCIC**	**T**	**FON**	**WCOM**	**ICIX**	**MFST**	**UMG**	**ATI**
Local	T	T	T	T	T	T	T	T	T	E		E				E	
Long Distance								E	T	T	T	T	T	E	E		E
Wireless	T	T	T	T	T	T		T	T	E	T	T/E				T	T
Video/Entertainment	E	E	E	E	E	E	E	E		E		E				T	
Alternative Telephony						E	E		E	E	E	E		T	T	E	
Integrated Telephony Svc						E			E	E	E	E		E	E		
Regional	T	T	T	T	T	T	T							T			
National						E	E	T	E	T	T	T	T		T	T	T
Telecom Legislation Impact	+	+	+	0	0	+	0	+	+	0	0	0	+	+	+	+	+
Regional/National Economy	+	-	+	-	-	+	+	+	0	+	0	0	+	+	+	+	+
Regulatory Climate	+	0	0	0	-	+	0	+	+	+	0	+	NA	+	+	NA	NA
Competition	+	+	-	-	0	-	+	0	+	+	0	0	+	+	+	+	+
Cost Structure	+	+	0	-	+	0	+	0	+	+	0	0	+	+	+		
Wireless	+	+	+	0	NA	+	NA	+	-	-	+	+	NA	NA	NA	+	+
Global Exposure	-	0	+	+	NA	+	NA	+	-	+	+	+	0	NA	0	+	+
EBITDA Margin 1996E	39.2%	44.6%	44.9%	39.9%	44.7%	42.8%	45.7%	45.2%	25.3%	21.3%	24.7%	28.7%	27.1%	-10.3%	-2.0%	31.9%	22.2%
Oper Margin 1996E	23.8%	24.7%	25.5%	19.3%	24.4%	26.4%	24.0%	27.1%	18.1%	12.5%	19.5%	17.1%	18.9%	-30.5%	-24.4%	21.4%	7.2%
1995-2000E Growth Rates																	
Revenues	9%	5%-6%	5%	4%	2%	6%	4%	5%-6%	15%	12%	8%	8%	18%	40%	45%	20%	25%
EBITDA	10%	8%	7%	5%	5%	8%	5%	10%	12%	15%	14%	8%	18%	40%	45%	25%	30%
Earnings	10%	9%	7%	6%	4%	10%	5%	10%	17%	14%	12%	7%	30%	Nil	Nil	20%	25%
Dividend	4%	2%	0%	0%	0%	4%	0%	2%	2.5%	0%	0%	0%	Nil	Nil	Nil	Nil	Nil
Trading (as of 5/31/96)																	
P/E 96E	14.9	14.5	16.3	12.8	12.6	14.5	13.3	14.7	18.9	17.1	16.9	14.4	27.2	NM	NM	NM	NM
P/E 97E	13.5	13.3	14.8	11.8	13.6	13.0	12.4	13.2	16.1	15.3	15.2	14.6	20.8	NM	NM	NM	NM
Dividend Yield %	3.8%	4.6%	3.5%	5.1%	3.8%	3.5%	6.6%	4.4%	2.6%	0.2%	2.1%	2.4%	0.0%	0.0%	0.0%	0.0%	0.0%
P/OCF 96E	6.6	6.0	5.7	5.5	4.8	6.3	4.0	5.9	8.4	5.9	10.5	4.9	11.5	NM	NM	12.1	17.9
P/OCF 97E	6.0	5.7	5.3	5.1	4.5	5.8	3.7	5.4	7.2	5.2	9.4	4.3	9.4	NM	NM	8.5	13.3
Target Valuations - Rel. P/E	1.10	1.10	1.05	0.85	0.90	1.10	0.90	1.10	1.25	*	*	0.95	1.30	DCF	DCF	*	*
12-month Target Price	70.6	79.9	44.4	51.7	40.0	63.2	37.3	53.9	40.3	40.0	80.0	46.6	62.5	44.0	51.0	28.0	40.0
Current Price	56.50	62.50	40.75	46.13	33.25	49.38	32.50	42.63	32.13	29.13	62.38	42.38	48.88	35.00	34.75	18.88	31.88
Total Return %	28.8%	32.5%	12.4%	17.2%	24.1%	31.5%	21.2%	30.9%	28.1%	37.5%	30.4%	12.2%	27.9%	25.7%	46.8%	48.3%	25.5%

Key:

T = Traditional

E = Emerging (Goal)

- Below Average

0 Average

+ Above Average

* = Sum of the Parts

Target price for most companies is based on 1996 estimated EPS and relative P/E valuations, except where a sum of the parts or discounted cash flow valuation is used

Target price for FRO and WCOM are based on 1997 estimated EPS and relative P/E valuations to reflect their accelerated earnings.

Note: total return is calculated based on target price divided by current price plus current dividend yield.

Outlook for 1996

With the federal telecommunications legislation completed, the arduous task of implementation has begun. The first major Notice of Proposed Rulemaking regarding interconnection and network unbundling has been adopted and the FCC is soliciting comments and guidance from industry players. We expect the order to be released by August 8. Companies are not standing by idly, but have begun to position themselves in anticipation of increased competition and growth opportunities. While we had expected industry restructuring (AT&T) and consolidation (BEL/NYN, SBC/PAC, MFST/UUNT) to occur, the accelerated pace has been remarkable. We look for further industry consolidation through takeovers, partnerships, and alliances.

We expect stable to better EPS growth with possible upside surprises for the larger telcos

Large Telcos (RHCs/GTE) - Following a stronger than expected first quarter, the 1996 outlook is bright. The group has shown increasing fundamental strength with stable to accelerating revenue growth translating into double-digit earnings growth for most of the Bells and GTE. **We see these trends of stable to better EPS growth continuing throughout 1996 due to steady volume growth, reduced pricing changes (i.e., fewer mandated price cuts), and productivity gains.** Upside surprises could result from a greater proportion of the telco group's volume, revenue, and earnings growth coming from value-added services and wireless services, which showed considerable strength in the first quarter.

Long distance carriers should benefit from decreasing access charges, increasing international volume, and increasing demand for new applications such as the Internet and enhanced data services

Long Distance - Exceptional first quarter results were driven by increasing volume and revenue growth. We expect this trend to continue as long distance carriers benefit from demand for new applications (i.e., Internet, enhanced data services), which stimulate higher volumes, reduced access pricing from the local exchange carriers, and increased international volume, which is growing at twice the rate of domestic markets. We are looking for 10%–11% average weighted industry volume growth, relative pricing stability with 2%–3% price reductions, and improved profitability as carriers benefit from reduced interconnection costs. As the Baby Bells and GTE take their first steps in the long distance market primarily as resellers, we look for WorldCom to be the main beneficiary of the increase in wholesale demand. GTE, in an agreement with WorldCom, is already offering long distance in eleven of its states and expects to be in all twenty-eight of its states by year end.

We expect wireless companies to increase profitability by reducing churn rates and acquisition costs

Wireless - Increased wireless competition expected in 1996-97 will likely result in a greater emphasis on targeted pricing plans, a reduced cost structure, and improved profitability. Although historically the wireless industry has not been subject to much price elasticity, we believe it may become more apparent in 1996. Also, we expect carriers to seek better distribution channels, which will increase profitability, reduce churn, and lower gross acquisition cost per subscriber. After strong first quarter results, we continue to look for growth in the 28%-30% forecast range for domestic cellular subscribers, while international growth should trend higher. We expect cellular revenues to grow 20%–25% and operating cash flow margins to remain relatively stable in the 35%-40% range. Importantly, wireless